

# **The Analysis of Financial Performance of Select Micro Enterprises**

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## **ABSTRACT**

This article is intended to analyze the Financial or Accounting performance of select Micro Enterprises in the Andhra Pradesh State. Generally, performance is assessed with financial or accounting based measures. Funds are invested in various assets in business to make sales and earn profits. The efficiency with which assets are managed directly affects the volume of sales. The better management of assets, the larger is the amount of sales and the profits. Financial or Accounting ratios measure the efficiency or effectiveness with a firm managing its resources or assets including the profitability, liquidity and cash flow efficiency. These ratios are also called turn over ratios because they indicate the speed with which assets are converted or turned over into sales. Therefore, the financial or accounting performance of Micro Enterprises can be measured and analyzed on the basis of various financial ratios.

**Keywords:** Acid test ratio, turnover ratio, financial statement, working capital, factor valuation.

## **INTRODUCTION**

The performance is a general term applied to a part or to all the conducts of activities of an enterprise over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability. Thus, performance is used to indicate firm's success, conditions and compliance. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to

the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of

balance sheet and the profit and loss account.

## **OBJECTIVES OF STUDY**

The basic objective of the study is to know the financial performance of select Micro Enterprises. With a view to analyze the financial performance of Micro Enterprises, the study focuses on Current Ratio, Quick/Acid Test/ Liquid Ratio, Inventory/ Stock Turnover Ratio, Debtors /Receivables Turnover Ratio, Creditors/Payables Turnover Ratio, Working Capital Turnover Ratio and Return to proprietors Ratio.

## **RESEARCH METHODOLOGY**

In the present study, 200 Micro Enterprises were selected from rural & urban areas of the Andhra Pradesh State. These Micro Enterprises were identified with the help of District Industrial Centres. Hence, the applied sampling procedure is not scientific. The Micro entrepreneurs in this state are selected with the help of local organizations. The study is based on the primary data collected from Select Micro Enterprises by well structured questionnaire for a period of 5 years from 2007-08 to 2011-12. Thus the study is based on both qualitative as well as quantitative data. However, conclusions are drawn on the basis of quantitative data only. The study is based on the primary data of Select Micro Enterprises; therefore, the generalizations drawn from the study may not be uniformly applicable to all types of Micro Enterprises in the state or country.

### **Research Hypothesis**

To test the financial performance of select Micro Enterprises the following hypothesis is formulated:

There is no significant difference between the select Micro Enterprises with regard to Current Ratios, Quick Ratios, Inventory Turnover Ratios, Debtors Turnover Ratios, Creditor's Turnover Ratios, Working Capital Ratios and Return to Proprietor Ratios.

### **Current Ratio**

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio, also known as working capital ratio, is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. It is calculated by dividing the total of current assets by total of the current liabilities. Current assets and current liabilities are the two basic components of current ratio. Current assets include cash and those assets which can be easily converted in to cash within a short period of time generally, one year, such as marketable securities, bills receivables, sundry debtors, inventories, work-in-progress, etc. Prepaid expenses should also be included in current assets because they represent payments made in advance which will not have to be paid in near future. Current liabilities are those obligations which are payable within a short period of generally one year and include outstanding expenses, bills payables, sundry creditors, accrued expenses, short-term advances, income-tax payable, dividend payable, etc. Bank overdraft should also generally be included in current liabilities because it represents short-term arrangement with the bank and is payable within a short period. But where bank overdraft is permanent or long-term arrangement with the bank, it should be excluded.

**Table-1 : Current Ratios of Select Micro Enterprises**

S. No	Nature of Micro Enterprises	Current Ratios (No. of times)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	1.9	2.2 (15.8)	2.4 (9.1)	2.6 (8.3)	2.8 (7.7)	2.4
2	Rice Mill/Saw Mill	2.4	2.6 (8.3)	2.8 (7.7)	3.0 (7.1)	2.9 (-3.3)	2.7
3	Seed processing	2.6	3.2 (23.1)	3.2 (-)	3.4 (6.3)	2.9 (-14.7)	3.1
4	Electrical & Electronics	3:1	2.8 (-9.7)	3.4 (21.4)	3.1 (-8.8)	3.5 (12.9)	3.2
5	Auto works	3.5	3.3 (-5.7)	3.4 (3.0)	3.2 (-5.9)	2.8 (-12.5)	3.2
6	Printing & Stationary	2.9	3.2 (10.3)	3.1 (-3.1)	3.3 (6.5)	3.4 (3.0)	3.2
7	Plastic Products	3.4	3.5 (2.9)	3.3 (-5.7)	2.9 (-6.1)	3.1 (-3.2)	3.3
8	Leather and Foot wear	2.8	3.2 (14.3)	3.0 (-6.3)	3.2 (6.7)	3.3 (3.1)	3.1
9	Cement and Bricks	1.6	1.9 (18.8)	2.2 (15.8)	1.8 (-9.1)	2.2 (22.2)	2.0
10	Furniture work	1.8	2.2 (22.2)	2.5 (13.6)	2.8 (12.0)	3.2 (14.3)	2.5

Source: Audit Reports & Financial Statements.

Note: Figures in brackets represent the Growth Rate.

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time as and when they become due. On the other hand, a relatively low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. An increase in the current ratio represents improvement in the liquidity position of a firm while a decrease in the current ratio indicates that there has been deterioration in the liquidity position of the firm. As a convention the minimum of 'two to one ratio' is referred to as a banker's rule of thumb or a arbitrary standard of liquidity for a firm. A ratio equal or near to the rule of thumb of 2:1 i.e., current assets double the current liabilities is considered to be satisfactory. The idea of having doubled the current assets as compared to current liabilities is to provide for delays and losses in the realization of current assets. However, the rule of 2:1 should not be blindly followed while making interpretation of the ratio, because firms having less than 2:1 ratio may be having a better liquidity than even firms having more than 2:1 ratio. This is so because the current ratio measures only the quantity of current assets and not quality of current assets.

The current ratios of select Micro Enterprises are showed in the following table-1 for the purpose of analysis.

The data reveals that all most all the select Micro Enterprise current assets are thrible the Current liabilities. The plastic products Micro enterprise maintain the average current ratio at 3.3 :1, followed by the printing & stationary, Auto works and Electrical & Electronics Micro Enterprises with average Current ratio of 3.2:1. As against this, the Micro Enterprises of Rice mills/Saw mill, Furniture work, Food processing and Cement and Bricks are maintain the lowest current ratio with 2.7:1, 2.5:1, 2.4:1 and 2:1 respectively. Based on the above data, it can be concluded that all the select Micro Enterprises are maintain the high liquid and has the ability to pay its current obligations in time as and when they become due.

In addition to the above analysis, the data has been analyzed by the performing the ANOVA with the following hypothesis:

**There is no significant difference between the composition of current assets and current liabilities of select Micro Enterprises.**

The findings of the ANAOVA presented in the following table - 1.1

**Table-1.1 : ANOVA Single Factor Values of Current Ratios of Select Micro Enterprises**

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	8.971744	9	0.99686	3.438314	0.003214	2.124029
Within Groups	11.59708	40	0.289927			
Total	20.56883	49				

As per the above ANOVA table it is observed that the calculated value of F 3.438 is much greater than the table value of F crit 2.124. Hence, there is a significant difference between the composition of current assets and current liabilities of select Micro Enterprises. Thus, the above stated hypothesis is to be rejected. Therefore, it can be stated that the current ratios of all the select Micro Enterprises are not similar.

#### Quick/ Acid test/ Liquid Ratio

The quick ratio is very useful in measuring the liquidity position of firm. It measures the firm's capacity to pay off current obligations immediately and is a more rigorous test of liquidity than the current ratio. It is used as a complementary ratio to the current ratio. As a rule of thumb or as a convention quick ratio of 1:1 is considered satisfactory. It is

generally thought that if quick assets are equal to current liabilities then the concern may be able to meet its short-term obligations. Although quick ratio is a more rigorous test of liquidity than the current ratio, yet it should be used cautiously and 1:1 rule should not be used blindly. A quick ratio of 1:1 does not necessarily mean satisfactory liquidity position if all the debtors cannot be realized and cash is needed immediately to meet the current obligations. In the same manner, a low quick ratio does not necessarily mean a bad liquidity position as inventories are not absolutely non-liquid. Hence, a firm having a high quick ratio may not have a satisfactory liquidity position if it has slow- paying debtors. On the other hand, a firm having a low quick ratio may have a good liquidity position if it has fast moving inventories. The quick ratios of select Micro Enterprises are given below in table-2 for the purpose of analysis.

**Table-2 : Quick Ratios of Select Micro Enterprises**

S. No	Nature of Micro Enterprises	Quick Ratios (No. of times)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	1.4	1.8 (28.6)	1.7 ((-5.6)	1.6 (-5.9)	1.6 ( - )	1.6
2	Rice Mill/Saw Mill	1.5	1.4 (-6.7)	1.6 (14.3)	1.4(-12.5)	1.9 (35.7)	1.6
3	Seed processing	2.2	1.8 (-18.2)	2.4 (33.3)	2.1(-12.5)	1.8 (-14.3)	2.1
4	Electrical & Electronics	1.9	2.1 (10.5)	1.8 (-14.3)	1.7 (-5.6)	1.8 (5.9)	1.9
5	Auto works	1.0	1.2 (20.0)	1.4 (16.7)	1.6 (14.3)	1.4 (-12.5)	1.3
6	Printing & Stationary	1.4	1.0 (-28.6)	1.2 (20.0)	1.5 (25.0)	1.5 ( - )	1.3
7	Plastic Products	1.0	1.2 (20.0)	1.4 (16.7)	1.3 (-7.1)	1.5 (15.4)	1.3
8	Leather and Foot wear	1.2	1.4 (16.7)	1.3 (-7.1)	1.5 (15.4)	1.6 (6.7)	1.4
9	Cement and Bricks	1.2	1.0 (-16.7)	1.3 (30.0)	1.4 (7.7)	1.7 (21.4)	1.3
10	Furniture work	1.0	1.0 ( - )	1.7 (70.0)	1.5(-11.8)	1.7 (13.3)	1.4

Source: Audit Reports & Financial Statements.

Note: Figures in brackets represents Growth Rate.

It is evident from the data that all the select Micro Enterprises are having 1:1 quick ratios during the period under review. Seed processing and Electrical & Electronic Micro Enterprises are having the highest average quick ratios with 2:1. Generally, the quick ratio is less than the current ratio. It can be concluded that all the select Micro Enterprises are having sufficient liquid assets to meet current liabilities. Further the data has been

analyzed by employing the technique of ANOVA with the following hypothesis:

**There is no significant difference among the select Micro Enterprises with regard to quick ratios.**

The results of the ANOVA are exhibited in the following table-2.1

**Table-2.1 : ANOVA Single Factor Values of Quick Ratios of Select Micro Enterprises**

<i>Source of Variation</i>	<i>SS</i>	<i>Df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	3.1488	9	0.349867	6.846706	6.88E-06	2.124029
Within Groups	2.044	40	0.0511			
Total	5.1928	49				

The results of ANOVA table states that the calculated value of F 6.8467 is much higher than the table value of F crit 2.12. Hence, there is a significant difference among the select Micro Enterprises with regard to quick ratios. Thus, the above mentioned hypothesis is to be rejected. Therefore, it can be concluded that the quick ratios of select Micro Enterprises are not similar.

### **Inventory / Stock Turnover Ratios**

Every firm has to maintain a certain level of inventory of finished goods so as to be able to meet the requirements of the business. But the level of inventory should neither be too high nor too low. It is harmful to hold more inventories for the following reasons:

- It unnecessary blocks capital which can otherwise be profitably used somewhere else.
- Over-stocking will require more go down space, so more rent will be paid.
- There are chances of obsolescence of stocks. Consumers will refer goods of latest design, etc.

- Slow disposal of stocks will mean slow recovery of cash also which will adversely affect liquidity.
- There are chances of deterioration in quality if the stocks are held for more periods.

It will therefore, be advisable to dispose of inventory as early as possible. On the other hand to low inventory may mean loss of business opportunities thus it is very essential to keep sufficient stocks in business.

Inventory turnover ratio also known as sock velocity is normally calculated as sales/average inventory or goods sold/average inventory. It would indicate whether inventory has been efficiently used or not. The purpose is to see whether only the required minimum funds have been locked by in inventory. Inventory turnover indicates the number of times the stock has been turned over during the period and evaluates the efficiency with which a firm is able to manage its inventory.

The figure of inventory at end of the year should not be taken for calculating stock velocity because normally the stock at the year

end is low. Generally efforts are made to dispose of inventory before the close of the year. So, average inventory should be taken for calculating stock turnover ratio. The inventory turnover ratios are presented in the following table-3 for purpose of interpretation.

**Table-3 : Inventory Turnover Ratios of Select Micro Enterprises**

S. N o	Nature of Micro Enterprises	Inventory Turnover Ratios (No. of times)					Ave rage
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	4.8	6.2 (29.2)	7.4 (19.4)	8.2 (10.8)	10.0(22.0)	7.3
2	Rice Mill/Saw Mill	8.4	9.3 (10.7)	10.4 (11.9)	8.3(-20.2)	12.4 49.4)	9.8
3	Seed processing	12.3	14.2 (15.4)	13.3 (-6.3)	9.8 (-26.3)	15.1 (23.5)	9.9
4	Electrical &Electronics	11.4	14.3 (25.4)	13.2 (-7.7)	15.0 (13.7)	18.2 (21.3)	14.4
5	Auto works	16.3	20.2 (28.9)	18.2 (-9.9)	19.2 (5.5)	14.4(-25.0)	17.7
6	Printing & Stationary	25.2	28.3 (12.3)	22.2 (-21.6)	26.4 (18.9)	30.2 (14.4)	26.5
7	Plastic Products	10.0	12.4 (24.0)	14.2 (14.5)	13.1(-7.7)	15.2 (16.0)	13.0
8	Leather and Foot wear	9.6	12.2 (27.1)	10.4 (-14.8)	14.2 (36.5)	15.4 (8.5)	12.4
9	Cement and Bricks	14.5	16.2 (11.7)	13.4 (-17.3)	18.0 (34.3)	22.0 (22.2)	16.8
10	Furniture work	24.0	21.6(-10.0)	28.2 (-30.6)	26.3 (-6.7)	31.2 (18.6)	26.3

Source:.. Audited & Financial Statement

Note: Figures in brackets represents Growth Rate.

The data reveals that the average inventory turnover ratios of select Micro Enterprises moved from 7.3 times to 26.5 times during the period under review. The printing & stationary Micro Enterprises are having the highest inventory turnover ratio, whereas the Food processing Micro Enterprises are having the lowest turnover ratio. It can be concluded that the inventory has been efficiently used and the required minimum funds have been locked in inventory.

In addition to the above analysis the data has been analyzed by adopting the statistical technique of ANOVA with the following hypothesis:

**There is no significant difference among the select Micro Enterprises with regard to Inventory Turnover Ratios.**

The results of the ANOVA are shown in the table-3.1

**Table-3.1 : ANOVA Single Factor Values of Inventory Turnover Ratios of Select Micro Enterprises**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1828.526	9	203.1695	30.30301	3.882E-15	2.124029
Within Groups	268.184	40	6.7046			
Total	2096.71	49				

The calculations in ANOVA table indicate that the calculated value of F 30.30 is much higher than the table value of F crit 2.124. Hence, the above mentioned hypothesis is to be rejected. Therefore, it can be concluded that the

inventory turnover ratios of select Micro Enterprises are not similar.

#### **Debtors /Receivables Turnover Ratio**

A concern may sell goods on cash as

well as on credit. Credit is one of the important elements of sales promotion. The volume of sales can be increased by following a liberal credit policy. But the effect of a liberal credit policy may result in typing up substantial funds of a firm in the form of trade debtors or receivables, i.e., debtors plus bills receivables. Trade debtors are expected to be converted into cash within a short period and are included in current assets. Hence, the liquidity position of a concern to pay its short-term obligations in time depends upon the quality of its trade debtors. Debtor's turnover ratio indicates the velocity of debt collection of firm. In simple words, it indicates the number of times average debtors (receivables) are turned over during a year. Debtors should always be taken at gross value. No provision for bad and doubtful debts is deducted from them. But when the information about opening and closing balances of trade debtors and credit sales is not available, then the debtor's turnover ratio can be calculated by

dividing the total sales by the balance of debtors (inclusive of bills receivables).

Debtor's velocity indicates the number of time the debtors are turned over during a year. Generally, the higher the value of debtor's turnover the more efficient is the management of debtors/sales or more liquid are the debtors. Similarly, low debtors turnover implies inefficient management of debtors/ sales and less liquid debtors. But a precaution is needed while interpreting a very high debtor's turnover ratio because a very high ratio may imply a firm's inability due to lack of resources of sell on credit thereby losing sales and profits. There is no 'rule of thumb' which may be used as a norm to interpret the ratio as it may; be different from firm to firm, depending upon the nature of business. This ratio should be compared with ratios of other firms doing similar business and trend may also be found to make better interpretation of the ratio. The Debtor's turnover ratios are presented in the following table-4 for purpose of interpretation.

**Table-4 : Debtor's Turnover Ratios of Select Micro Enterprises**

S. No	Nature of Micro Enterprises	Debtor's Turnover Ratios (No. of times)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	10.2	11.2 (9.8)	9.6 (-14.3)	12.1(26.0)	14.0(15.7)	11.4
2	Rice Mill/Saw Mill	9.8	14.2 (44.9)	13.3(6.3)	16.1(21.1)	14.2(11.8)	13.5
3	Seed processing	13.2	15.3(15.9)	14.4(-5.9)	18.2(26.4)	20.1(10.4)	16.2
4	Electrical & Electronics	9.7	12.2(25.8)	14.0(14.8)	16.2(15.7)	14.4(11.1)	13.3
5	Auto works	11.3	13.2(16.8)	14.4(9.1)	13.0(-9.7)	15.2(16.9)	13.4
6	Printing & Stationary	12.2	14.3(17.2)	18.1(25.9)	14.6(-19.3)	16.2(11.0)	15.1
7	Plastic Products	13.3	14.2(6.8)	12.4(-12.7)	15.1(21.8)	9.8 (-35.1)	13.0
8	Leather and Foot wear	8.9	11.2(25.8)	14.2(26.8)	13.2(-7.0)	12.3(-6.8)	12.0
9	Cement and Bricks	12.3	14.0(13.8)	13.4(-4.3)	17.2(28.4)	20.0(16.3)	15.4
10	Furniture work	10.2	12.3(20.6)	14.2(15.4)	16.1(13.4)	20.0(24.2)	14.6

Source:.. Audit Report & Financial Statements.

Note: Figures in brackets represents Growth Rate.

The data reveals that the average debtors turnover ratios of select Micro Enterprises are moved from 11.4 to 16.2 during the period under review. Actually, there is no rule of thumb which may be used as a norm to interpret the debtors turnover ratio. This ratio

may be differing from one firm to another depending up on the nature of business. However, the Seed Processing, Cement and Bricks, Printing & Stationary Micro Enterprises are evident the highest debtors turnover ratios with 16.2, 15.4 and 15.1 respectively. Whereas,

the food Processing Micro Enterprises having a lowest debtors turnover ratio of 11.4. Further the data has been analyzed by applying the statistical technique of ANOVA with the following hypothesis:

**There is no significant difference among the select Micro Enterprises with regard to Debtor's Turnover Ratios.**

The analysis of ANOVA are exhibited in the table-4.1

**Table-4.1 : ANOVA Single Factor Values of Debtor's Turnover Ratios of Select Micro Enterprises**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	105.1048	9	11.67831	1.890245	0.081684	2.124029
Within Groups	247.128	40	6.1782			
Total	352.2328	49				

**Table-5 : Creditor's Turnover Ratios of Select Micro Enterprises**

S.No	Nature of Micro Enterprises	Creditor's Turnover Ratios (No of times)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	8.8	11.4(29.5)	14.0(22.8)	15.2(8.6)	13.6(-10.5)	12.7
2	Rice Mill/Saw Mill	22.0	19.6(-10.9)	16.8(-14.3)	21.2(26.2)	24.0(13.2)	20.7
3	Seed processing	10.0	12.6(26.0)	14.4(14.3)	13.5(-6.25)	16.4(21.5)	13.4
4	Electrical & Electronics	6.8	8.6(26.5)	9.7(12.8)	10.2(5.2)	9.6(-5.9)	9.0
5	Auto works	10.2	12.3(20.6)	14.2(15.4)	13.0(-8.4)	15.2(16.9)	13.0
6	Printing & Stationary	12.2	14.4(20.6)	15.2(5.6)	10.3(-32.2)	13.0(26.2)	13.0
7	Plastic Products	8.0	7.8(18.0)	10.2(30.8)	12.3(20.6)	14.4(17.1)	10.5
8	Leather and Foot wear	9.8	11.5(-2.5)	10.9(-5.2)	12.6(15.6)	13.4(6.3)	11.6
9	Cement and Bricks	10.3	12.7(17.3)	9.6(-24.4)	13.0(35.4)	11.4(-12.3)	11.4
10	Furniture work	12.0	11.9(-0.8)	14.6(12.7)	15.3(4.8)	16.2(5.9)	14.0

Source: Audit Report & Financial Statements

Note: Figures in brackets represents Growth Rate.

It is evident that the calculated value of F 1.89 is less than the table value of 2.12. Hence, there is no significant difference among the select Micro Enterprises with regard to Debtor's Turnover Ratios. Thus, the above hypothesis is to be accepted. Therefore, it can be concluded that the Debtor's Turnover Ratios of all the selected Micro Enterprises are very similar.

### Creditors/Payables Turnover Ratio

In the course of business operations, a firm has to make credit purchases and incur short-term liabilities. A supplier of goods, i.e., creditor, is naturally interested in finding out

how much time the firm is likely to take in repaying its trade creditors. The analysis for creditor's turnover is basically the same as of debtor's turnover ratio except that in place of trade debtors, the trade creditor's turnover is basically the same as of debtors turnover ratio except that in place of trade debtors, the trade creditors are taken as one of the components of the ratio and in place of average daily sales, average daily purchases are taken as the other component of the ratio. If information about credit purchases is not available, the figure of total purchases may be taken as the numerator and the trade creditors include sundry creditors and bills payables. If opening and closing balances of creditors are not known, the balance



of creditors given may be taken to find out the ratio. The ratio indicates the velocity with which the creditors are turned over in relation to purchases. Generally, higher the creditor's velocity better it is or otherwise lower the creditor's velocity, less favorable are the results. The Creditor's Turn Over ratios of select Micro Enterprises are given below in table-5 for the purpose of analysis.

The analysis for creditor's turnover ratio is same as of debtor's turnover ratio. Higher the creditor's velocity indicates the better performance. The data reveals that the Rice mill/Sawmill Micro Enterprises are

maintaining the highest creditor's velocity with 20.7. As against this Electrical & Electronics Micro Enterprises are having lowest creditor's velocity with 9.0. However, it can be concluded that, all most all the select Micro Enterprises are favorable in repaying its trade creditors according to their commitment. The data can also been analyzed by performing ANOVA with the following hypothesis:

**There is no significant difference among the select Micro Enterprises with regard to creditor's turnover ratios.**

The results of the ANOVA presented in the following table-5.1

**Table-5.1 : ANOVA Single Factor Values of Creditor's Turnover Ratios of Select Micro Enterprises**

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	437.3522	9	48.59469	10.93711	2.38E-08	2.124029
Within Groups	177.724	40	4.4431			
Total	615.0762	49				

**Table-6 : Working Capital Turnover Ratios of Select Micro Enterprises**

S. No	Nature of Micro Enterprises	Working Capital Turnover Ratios (No. of times)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	5.0	6.0 (20.0)	8.5(41.7)	7.0(17.6)	9.6(37.1)	7.2
2	Rice Mill/Saw Mill	8.4	9.0 (7.1)	10.2(13.3)	8.8(-13.7)	11.0(25.0)	9.5
3	Seed processing	10.0	9.6 (-4.0)	12.3(28.2)	14.4(17.1)	15.2(5.6)	12.3
4	Electrical & Electronics	13.6	15.2 (11.8)	12.5(-17.8)	16.3(30.4)	18.4(12.9)	15.2
5	Auto works	15.0	14.4 (-4.0)	18.6(29.2)	17.2(-7.5)	19.0(10.5)	13.2
6	Printing & Stationary	11.0	14.3 (30.0)	13.4(-6.3)	16.5(23.1)	17.4(5.5)	14.5
7	Plastic Products	9.8	11.6 (18.4)	12.4(6.9)	9.8(-21.0)	11.0(12.2)	9.7
8	Leather and Foot wear	10.0	12.2 (22.0)	14.3(17.2)	13.4(-6.3)	12.3(-8.2)	12.5
9	Cement and Bricks	7.3	9.8 (34.2)	8.6(-12.2)	10.8(25.6)	12.3(13.9)	8.9
10	Furniture work	9.8	12.4 (26.5)	11.6(-6.5)	13.0(12.1)	16.2(24.6)	13.7

Source: Audit Reports & Financial Statements.

Note: Figures in brackets represents Growth Rate.

The values shown in the ANOVA table, is evident that the calculated value of F 10.937 is much greater than the table value of F crit 2.1. Hence, there is a significant difference among the select Micro Enterprises with regard to creditor's turnover ratios. Thus, the above hypothesis is to be rejected. Therefore, it can be

concluded that the creditors turn over ratios of select Micro Enterprises are not similar.

### **Working Capital Turnover Ratio**

Working Capital of a concern is directly related to sales. The current assets like debtors, bills receivables, cash, and stock etc. change with the increase or decrease in sales.

The working capital is taken as Working Capital = Current Assets- Current Liabilities. Working Capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year. This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilization of working capital and a low ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio. This ratio can at best be used by making of comparative and trend analysis for different firms in the same industry and for various periods. If the figure of cost of sales is not given, then the figure of sales can be used instead. On the other hand if opening working capital is not disclosed, then working capital at the yearend will be used. The Working Capital Turn Over ratios of select

Micro Enterprises are given below in table-6 for the purpose of analysis.

It is evident that, all the select Micro Enterprises being used the working capital efficiently as their working capital turnover ratios are high during the period under review. The Electrical & Electronics Micro Enterprises are registered with the highest 15.2 times, as against this Food processing Micro Enterprises are having lowest at 7.2 times among the select Micro Enterprises. It can be concluded that the entire sample Micro Enterprises were utilized the working capital very efficiently and effectively. In addition to the above analysis, the data has been analyzed by performing the ANOVA with the following hypothesis;

**There is no significant difference between the select Micro Enterprises as far as Working Capital Ratios are concerned.**

The findings of the ANOVA presented in the following table-6.1.

**Table-6.1 : ANOVA Single Factor Values of Working Capital Ratios of Select Micro Enterprises**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	377.3032	9	41.92258	10.47593	4.2E-08	2.124029
Within Groups	160.072	40	4.0018			
Total	537.3752	49				

**Table-7 : Return to Proprietors Ratios of Select Micro Enterprises**

S.No	Nature of Micro Enterprises	Return of owner's investment Ratios(%)					Average
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	Food Processing	15	18(20)	20(11)	19(-5)	23(21)	19.0
2	Rice Mill/Saw Mill	17	19(12)	20(5)	23(15)	25(9)	20.8
3	Seed processing	20	23(15)	25(9)	24(-4)	26(8)	23.6
4	Electrical & Electronics	19	21(10.5)	24(14)	21(-13)	26(24)	22.2
5	Auto works	20	22(10)	23(5)	24(4)	26(8)	23.0
6	Printing & Stationary	22	24(9)	26(8)	21(-19)	27(29)	24.0
7	Plastic Products	21	23(10)	24(4)	23(-4)	28(22)	23.8
8	Leather and Foot wear	23	25(9)	27(8)	26(-4)	29(11.5)	11.0
9	Cement and Bricks	19	22(16)	25(14)	23(-8)	25(9)	14.6
10	Furniture work	21	23(9.5)	26(13)	25(-4)	27(8)	24.4

Source: Audit Reports & Financial Statements.

Note: Figures in brackets represents Growth Rate.

It is observed that the values shown in the ANOVA table reveals that the calculate value of F 10.47593 is more than the table value of F crit 2.12. Hence, there is a significant difference between the select Micro Enterprises as far as Working Capital Ratios are concerned. Thus, the above hypothesis is to be rejected. Therefore, it can be concluded that working capital turnover ratios of all the Micro Enterprises are not same.

### Return to Proprietors

In case of Micro Enterprises, return to proprietors is popularly known as Return on owner's investment or ROI or Return on owner's funds. This ratio is indicating the relationship between net profits (after interest tax) and the owner's funds. The ratio is generally calculated as a percentage by multiplying the above with 100. The two basic components of this ratio are net profits and Proprietors funds. Net profits are visualized from the viewpoint of Proprietors. Thus, net profits are arrived at after deducting interest on long-term borrowing and income-tax, because those will be the only profits available for Proprietors. As this ratio reveals how well the resources of a firms are being used, higher the ratio, better are the results. The return on owner's investment should be compared with the return of other similar Enterprises in the same industry. The inter-firm comparison of this ratio determines whether the investments in these firm are attractive or not as the investors

would like to invest only where the return is higher. Similarly, trend ratios can also be calculated for a number of years to get an idea of the prosperity, growth or deterioration in the Enterprises profitability and efficiency. Return on owner's investment ratios are presented in the following table-7 for analysis purpose.

All most all the Micro Enterprises are sole proprietary enterprises, where they are maintained by the proprietor and his family members. Thus, the entire returns are to be enjoyed by him and his family members. As per the data of the above table, it is evident that most of the Micro Enterprises are earning more than 20 per cent of returns on their investment. The printing & stationary Micro Enterprises are earning the highest 24 per cent of returns on their investment. As against this the Leather and Foot wear Micro Enterprises are being in lowest position with 11 per cent of returns. The overall rate of return to proprietors is at good. Therefore, it can be concluded that the Micro Enterprises can provide the good rate of return to the proprietors if they are managed effectively.

In addition to the above analysis, the data has been analyzed by performing the ANOVA with the following hypothesis;

**There is no significant difference between the select Micro Enterprises as far as Return to Proprietor ratios is concerned.**

The findings of the ANOVA presented in the following table-7.1.

**Table-7.1 : ANOVA Single Factor Values of Return to Proprietors Ratios of Select Micro Enterprises**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	172.32	9	19.14666667	2.861983059	0.010549	2.124029
Within Groups	267.6	40	6.69			
Total	439.92	49				

It is observed that the values shown in the ANOVA table reveal that the calculated

value of F 2.86 is greater than the table of F crit 2.12. Hence, there is a significant difference

between the select Micro Enterprises as far as Return to Proprietors Ratios is concerned. Thus, the above hypothesis is to be rejected. Therefore, it can be concluded that the returns to proprietor's ratios of all the Micro Enterprises are not same.

## CONCLUSION

The study was undertaken to test whether the financial performance of Select Micro Enterprises in terms of Current Ratio, Quick/Acid Test/ Liquid Ratio, Inventory/ Stock Turnover Ratio, Debtors /Receivables Turnover Ratio, Creditors/Payables Turnover Ratio, Working Capital Turnover Ratio and Return to Proprietors are same or not. The result and analysis of all the key financial ratios of Select Micro Enterprises indicate that they are not similar.

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